

Message Text

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ACTION EA-10

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C O N F I D E N T I A L JAKARTA 14372

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SUBJ: FY 1975 ASSISTANCE LEVELS

REF: STATE 256858

1. CHARGE SAW BAPPENAS CHAIRMAN WIDJOJO ON NOVEMBER 25 TO CONVEY CURRENT INFORMATION ON PLANNED US ASSISTANCE LEVELS FOR FY 75. USAID DIRECTOR AND BAPPENAS DEPUTY CHAIRMAN SALEH AFIFF ALSO PRESENT.
2. WE SAID IT WAS GENERALLY UNDERSTOOD BETWEEN OUR TWO GOVERNMENTS EALIER IN YEAR THAT SOME REDUCTION IN HIGHLY CONCESSIONAL US ASSITANCE WOULD BE IN ORDER THIS YEAR, IN LIGHT OF INDONESIA'S IMPROVED FINANCIAL PROSPECTS, AND THAT OPPORTUNITIES FOR EXPORT-IMPORT BANK FINANCING OF DEVELOPMENT PROJECTS SHOULD BE EXPLORED.
3. WE WERE PLEASE TO NOTE THAT INDONESIA'S RENEWED RELATIONSHIP WITH THE EXPORT-IMPORT BANK HAD ALREADY RESULTED IN THREE LOANS AND ONE PROVISIONAL COMITMENT TOTALLING \$70 MILLION, AND THAT ADDITIONAL TRANSACTIONS WERE UNDER STUDY. WE UNDERSTOOD GOI WILLING CONSIDER SUCH FINANCING AS RESPONSIVE TO INVESTMENT DEVELOPMENT PROGRAM PRESENTED TO IGGI, AND RELATED US PLEDGE, LAST YEAR.

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4. ON THE AID SIDE, INDONESIA'S IMPROVED FINANCIAL STATUS

AS RESULT OIL PRICE INCREASES WAS WELL KNOWN IN THE CONGRESS WHICH PREOCCUPIED WITH PROBLEMS AND NEEDS OF LDC'S MOST SERIOUSLY AFFECTED BY OIL PRICE INCREASES AND FOOD SHORTAGES. AS RESULT, WE NOW PLAN DEVELOPMENT LOAN LEVEL DURING FY 1975 OF \$40 MILLION RATHER THAN \$60 MILLION AS EARLIER ANTICIPATED. PL 480 DECISIONS BEING TAKEN CAUTIOUSLY THIS YEAR. INDONESIA NOT INCLUDED IN ALLOCATIONS FOR FIRST TWO QUARTERS, AND ECISION ON ALLOCATIONS FOR BALANCE OF FY 75 NOT EXPECTED UNTIL LATE DECEMBER , AT EARLIEST.

5. WIDJOJO SAID THIS WAS VERY UNWELCOME NEWS AND AN UNFORTUNATE DEVELOPMENT. HE SAID GOI HAD UNDERTAKEN DISCUSSIONS WITH A NUMBER OF EXPORT CREDIT AGENCIES, SUCH AS ECGD, TO DETERMINE WHAT FACILITIES THEY OFFER. THIS HAD BEEN NECESSARY BECAUSE MANY DONORS NOW SEEKING SOCIAL PROJECTS RATHER THAN INFRASTRUCTURE INVESTMENTS, AND MANY VALID DEVELOPMENT REQUIREMENTS, SUCH AS POWER PLANTS, WOULD OTHERWISE GO BEGGING. IN ALL THESE DISCUSSIONS, HOWEVER, GOI HAD BEEN CAREFUL TO KEEP CONCESSIONAL AID AND EXPORT CREDIT QUITE SEPARATE. THEY DID NOT SEE EXPORT CREDITS AS A SUBSTITUTE FOR CONCESSIONAL ASSISTANCE FOR WHCIH THERE IS CONTINED JUSTIFICATION IN TERMS INDONESIA'S INVESTMENT NEEDS AND LOW PER CAPITA INCOME. WIDJOJO SAID THERE MAY BE SOME MISUNDERSTANDING VIS-A-VIS THE US IN THIS REGARD. HE NOTED HIGH COSTS, RELATIVELY SHORT MATURITIES, AND FACT THAT DIRECT EX-IM LOANS ONLY ABOUT 40 PERCENT OF TRANSACTION WITH BALANCE AT COMMERICAL RATES. HE SAID HE DID NOT THINK SUCH FINANCING WOULD MEET OECD MINIMUM CONCESSIONAL ELEMENT CRITERIA FOR ODA (OFFICIAL DEVELOPMENT ASSISTANCE)

6. WIDJOJO EXPRESSED CONCERN THAT US ACTION TO REDUCE LEVEL OF DEVELOPMENT LOANS WOULD PRECIPITATE SIMILAR ACTION BY OTHER DONORS. AFTER CHARGE REPLIED ALONG LINES OF PARA 2 OF REFTEL, WIDJOJO EXPRESSED "SERIOUS CONCERN" THAT OTHER DONORS MIGHT BE INFLUENCED TO SUBSTITUTE EXPORT CREDITS FOR CONCESSIONAL LOANS, DEVELOPMENT GOI WOULD CONSIDER VERY UNDESIRABLE.

7. ON FOOD AID, WIDJOJO URGED THAT INDONESIA'S NEEDS
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BE KEPT IN MIND AS USG CONSIDERS FURTHER PL 480 ALLOCATIONS. HE EXPRESSED HOPE THAT RELATIVELY HIGH LEVELS OF GOI'S RICE AND COTTON STOCKS AT PRESENT TIME, AS WELL AS THOUGHT GOI HAD OF USING RICE STOCKS IN GESTURE OF ASSISTANCE TO BANDLADESH, WOULD NOT BE MISINTERPRETED IN WASHINGTON AS SIGN INDONESIA NO LONGER NEEDS PL 480 ASSISTANCE.

8. COMMENT: WIDJOJO REACTION TO NEWS REDUCTION
FY 75 DL LEVEL WAS UNEXPECTEDLY STRONG. BUT MOST
WORRISOME ASPECT OF DISCUSSION WAS WHAT APPEARS TO
BE SECOND THOUGHTS ON WIDJOJO'S PART RE STATUS IN
IGGI CONTEXT OF EXIM BANK CREDITS. IN HIS RELARKS
AT LAST AMSTERDAM IGGI MEETING, WIDJOJO SPOKE OF "
A WILLINGNESS TO ACCEPT BLEND OF HIGHLY CONCESSIONAL
AID AND CREDITS ON SOMEWHAT HARDER TERMS." HE HAD
ALSO CLEARLY STATED DURING FINAL WRAP-UP MEETING WITH
CASEY THAT EXIM FUNDING FOR EQUIPMENT FOR GOVERNMENT
DEVELOPMENT PROJECTS WOULD BE CONSIDERED AS RESPONSIVE
TO OUR IGGI PLEDGE, BUT NOT FUNDING FOR AIRCRAFT AND
PRIVATE SECTOR(HE EQUIVOCATED RE PERTAMINA PROJECTS,
SUCH AS FERTILIZER PLANTS).

9. IT WOULD APPEAR WIDJOJO'S POSITION HAS NOW STIFFENED
POSSIBLY OUT OF CONCERN THAT OTHER DONORS WILL UNDER-
TAKE ABRIUPT SHIFT TO EXPORT CREDITS. HE SEEMS TO HAVE
ABANDONED THE MIX CONCEPT USED AT AMSTERDAM IN FAVOR OF
SETTING SOME MINIMUM STANDARD OF INTEREST RATE AND
MATURITY FOR FINANCING OF INDIVIDUAL PROJECTS IF SUH
FINANCING TO BE CONSIDERED IN IGGI FRAMEWORK. IN THIS
CONNECTION, HE OFTEN REFERS TO OECD DEFINITION
OF ODA (OFICIAL DEVELOPMENT ASSISTANCE), BUT
ADMITS THAT EXACTLY WHERE TO DRAW THE LINE REMAINS
A "GOOD QUESTION." WE PLAN SEEK CLARIFICATION
THIS DEVELOPMENT FROM BAPPENAS AND FIANCE.
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